

**AUDITED FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION
NORTHEASTERN TECHNICAL COLLEGE
June 30, 2010**

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June 30, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS
NORTHEASTERN TECHNICAL COLLEGE
June 30, 2010

Northeastern Technical College ("the College") is pleased to present its financial report and management's discussion and analysis of the College's financial activity for the fiscal year June 30, 2010, which focuses on current activities, resulting change and currently known facts, and provides a comparison with the prior fiscal year. This discussion should be read in conjunction with the financial statements and the accompanying notes, which follow this section.

Overview of the Financial Statements

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Colleges and Universities*.

The College is engaged only in Business-Type Activities (BTA) that are financed in part by fees charged to students for educational services. Accordingly, its activities are reported using the three financial statements required for proprietary funds: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the financial position of the College at the end of the fiscal year and requires classification of assets and liabilities into current and non-current categories. The College's net assets is the difference between total assets and total liabilities and is one indicator of the current financial condition of the College, while the change in net assets from the prior year is an indicator of whether the overall financial condition has improved or deteriorated during the year. This statement is designed to present a snapshot of the College's financial condition at the end of the fiscal year.

The Statement of Revenues, Expenses, and Changes in Net Assets presents revenues earned and expenses incurred during the year. Revenues and expenses are classified as either operating or non-operating. Expenses are reported by natural classification. This statement reflects the College's dependence on state funding by the resulting operating loss.

The final statement presented is the Statement of Cash Flows, which presents detailed information about the cash activity of the College during the year. This statement further emphasizes the College's dependence on state and county appropriations, because it separates them into operating and non-operating cash flows.

Financial Analysis of the College as a Whole

The following schedule is prepared from the College's Statement of Net Assets, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated. Note that assets substantially exceed liabilities denoting a sound financial condition for the College.

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
ASSETS			
Current Assets	\$ 3,114,719	\$ 2,880,951	\$ 233,768
Non-Current Assets			
Capital Assets, Net of Depreciation	9,246,619	9,080,994	165,625
Total Assets	<u>\$ 12,361,338</u>	<u>\$ 11,961,945</u>	<u>\$ 399,393</u>
LIABILITIES			
Current Liabilities	\$ 943,511	\$ 777,488	\$ 166,023
Non-current Liabilities	309,149	338,439	(29,290)
Total Liabilities	<u>\$ 1,252,660</u>	<u>\$ 1,115,927</u>	<u>\$ 136,733</u>
NET ASSETS			
Investment in Capital Assets	\$ 9,246,619	\$ 9,080,994	\$ 165,625
Unrestricted	1,288,821	545,003	743,818
Restricted	573,238	1,220,021	(646,783)
Total Net Assets	<u>\$ 11,108,678</u>	<u>\$ 10,846,018</u>	<u>\$ 262,660</u>
Total Liabilities and Net Assets	<u>\$ 12,361,338</u>	<u>\$ 11,961,945</u>	<u>\$ 399,393</u>

Net assets may serve over time as a useful indicator of an entity's financial position. The largest portion of the College's net assets (83%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The College uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

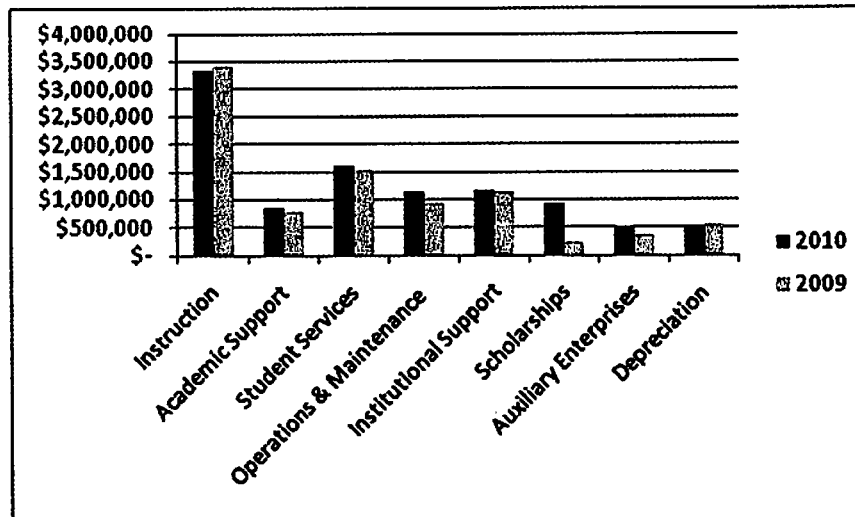
Approximately 5 percent of the College's total net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$1,288,821 or approximately 12 percent may be used to meet the College's ongoing unrestricted obligations.

The following schedule summarizes the operating results for the two fiscal years. A large portion of the revenue included in the Grants and Contracts category represents student financial assistance, which is used to pay tuition and fees for students to attend the College. An approximation of tuition and fees paid from this source of funds has been recognized as a reduction of tuition and fees in the form of scholarship allowances in order to eliminate duplication of revenue.

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Operating Revenue			
Tuition and Fees	\$ 1,035,342	\$ 1,304,554	\$ (269,212)
Grants, Contracts and Other	1,795,154	3,243,607	(1,448,453)
Auxiliary	505,998	409,030	96,968
Total Operating Revenue	<u>\$ 3,336,494</u>	<u>\$ 4,957,191</u>	<u>\$ (1,620,697)</u>
Less Operating Expenses	<u>\$ 10,051,604</u>	<u>\$ 8,950,823</u>	<u>\$ 1,100,781</u>
Operating Income/(Loss)	\$ (6,715,110)	\$ (3,993,632)	\$ (2,721,478)
Non-Operating Revenues (Expenses)			
State Appropriations, Grants and Contracts	\$ 1,922,918	\$ 3,467,644	\$ (1,544,726)
Local Appropriations	727,095	702,868	24,227
Interest Income	9,371	9,753	(382)
State Grants and Contracts	181,917	139,201	42,716
Federal Grants and Contracts	3,460,713	4,444	3,456,269
Other Non-Operating Revenues	633,544	468,214	165,330
Net Non-Operating Revenues	<u>\$ 6,935,558</u>	<u>\$ 4,792,124</u>	<u>\$ 2,143,434</u>
Income/(Loss) Before Other Revenues, Expenses, Gains or Losses	\$ 220,448	\$ 798,492	\$ (578,044)
Gain on disposal of capital assets	0	2,090	(2,090)
Capital Grants and Gifts	42,212	61,233	(19,021)
Increase(Decrease) in Net Assets	\$ 262,660	\$ 861,815	\$ (599,155)
Net Assets			
Net Assets - Beginning of Year	<u>\$ 10,846,018</u>	<u>\$ 9,984,203</u>	<u>\$ 861,815</u>
Net Assets - End of Year	<u>\$ 11,108,678</u>	<u>\$ 10,846,018</u>	<u>\$ 262,660</u>

Expenses

Note N in the accompanying Notes to the Financial Statements identifies operating expenses by functional classification. The following graph illustrates the natural class categories of the operating expenses from the condensed operating results above.



Economic Factors

The economic condition of the state has affected the College through reductions in state funding. As a result, the College received \$1,544,726 less in appropriations compared to fiscal year 2008-2009. This was offset by the American Recovery and Reinvestment Act Of 2009 federal funds, which will conclude during the first quarter of fiscal year 2011-2012. Also during 2010, enrollment increased significantly, which helped offset the reduction in state funding. The College remains a financially strong institution but declining funding and higher operating costs will continue to place a strain on the College's operating budget.

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INDEPENDENT AUDITORS' REPORT

The President and Members of the Area Commission
Northeastern Technical College
Cheraw, South Carolina

We have audited the financial statements of the business-type activities of Northeastern Technical College ("*the College*") as of and for the year ended June 30, 2010 which comprise the College's basic financial statement as listed in the table of contents. These basic financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Northeastern Technical College as of June 30, 2010, and the respective changes in financial position and the cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2010, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the College taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Columbia, South Carolina
September 29, 2010

The Hobbs Group, P.A.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
NORTHEASTERN TECHNICAL COLLEGE
June 30, 2010

ASSETS

Current Assets

Cash and cash equivalents	\$	917,464
Restricted cash and cash equivalents		573,238
Accounts receivable -- Note C		1,513,028
Inventories		96,577
Other assets		14,412
Total Current Assets		3,114,719

Noncurrent Assets

Capital assets, net of accumulated depreciation -- Note D		9,246,619
Total Noncurrent Assets		9,246,619

TOTAL ASSETS **\$ 12,361,338**

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$	19,946
Deferred revenue		767,074
Accrued payroll and related liabilities		64,451
Deposits held for others		38,192
Current portion of accrued annual leave -- Note H		53,848
Total Current Liabilities		943,511

Noncurrent Liabilities

Note Payable -- Note I		18,291
Accrued annual leave -- Note H		290,858
Total Noncurrent Liabilities		309,149

TOTAL LIABILITIES **1,252,660**

NET ASSETS

Invested in capital assets, net of related debt		9,246,619
Unrestricted		1,288,821
Restricted - expendable		573,238

TOTAL NET ASSETS **11,108,678**

TOTAL LIABILITIES AND NET ASSETS **\$ 12,361,338**

See Notes to the Financial Statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
NORTHEASTERN TECHNICAL COLLEGE
For the Year Ended June 30, 2010

REVENUES

Operating Revenues

Student tuition and fees (net of scholarship allowances of \$3,011,924)	\$ 1,035,342
Federal grants and contracts	907,474
State grants and contracts	887,680
Auxiliary enterprises	505,998
Total Operating Revenues	3,336,494

EXPENSES

Operating Expenses

Salaries	4,481,511
Benefits	1,293,232
Scholarships	941,792
Utilities	281,218
Supplies and other services	2,533,162
Depreciation	520,689
Total Operating Expenses	10,051,604

OPERATING LOSS (6,715,110)

Nonoperating Revenues (Expenses)

State appropriations	1,922,918
Local appropriations	727,095
Interest income	9,371
State grants and contracts	181,917
Federal grants and contracts	3,460,713
Other nonoperating revenues	633,544
Net Nonoperating Revenues	6,935,558

INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES 220,448

Capital grants and gifts

INCREASE IN NET ASSETS 42,212 262,660

NET ASSETS

Net Assets - beginning of year 10,846,018

NET ASSETS - END OF YEAR \$ 11,108,678

See Notes to the Financial Statements.

STATEMENT OF CASH FLOWS
NORTHEASTERN TECHNICAL COLLEGE
For the Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 799,571
Federal, state and local grants and contracts	1,780,221
Auxiliary enterprise charges	505,998
Receipt of funds held for others	34,518
Payment of funds held for others	(38,212)
Payments of vendors	(4,973,347)
Payments to employees	(4,539,122)

NET CASH USED IN OPERATING ACTIVITIES (6,430,373)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	1,930,467
County appropriations	726,253
State, local and federal grants, gifts and contracts - non-operating	3,675,797
Other income - non-operating	622,606

NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 6,955,123

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital grants and gifts	42,212
Purchase of capital assets	(686,314)

NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES (644,102)

NET DECREASE IN CASH (119,352)

Cash - beginning of year 1,610,054

CASH - END OF YEAR \$ 1,490,702

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES:

Operating loss	\$ (6,715,110)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation expense	520,689
Change in assets and liabilities:	
Receivables, net	(302,839)
Inventories	23,954
Deferred charges and prepaid expenses	413
Accounts payable	8,999
Accrued liabilities	42,691
Compensated absences	(57,610)
Deferred revenue	52,133
Deposits held for others	(3,693)

NET CASH USED IN OPERATING ACTIVITIES \$ (6,430,373)

See Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE
June 30, 2010

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Northeastern Technical College ("*the College*"), a member institution of the South Carolina Technical College System, provides a range of educational programs to meet the needs of the adult population of Chesterfield, Marlboro and Dillon counties. Included in this range of programs are technical and occupational associate degrees, diploma and certificate curricula that are consistent with the needs of employers in the College's service area. As an integral part of this mission, the College provides a program of continuing education designed to satisfy the occupational demands of employers through retraining and upgrading the skills of individual employees. The College also provides a variety of developmental education programs, support services and offerings to assist students in meeting their personal and professional educational objectives.

Reporting Entity: The financial reporting entity, as defined by the Governmental Accounting Standards Board (GASB) consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the accounts of Northeastern Technical College, as the primary government. Northeastern Technical College has determined that it is not a component of another entity, and it has no component units. The College is part of the primary government of the State of South Carolina.

Financial Statements: The financial statements are presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows that replaces the fund-group perspective previously required.

Basis of Accounting: For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship expenses. All significant intra-institutional transactions have been eliminated.

The College has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Cash and Cash Equivalents: For purposes of the Statement of Cash Flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office are considered cash equivalents.

**NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE**

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments: Deposits and investments for the College are governed by the South Carolina Code of Laws, Section 11-9-660, "Investment of Funds". GASB Statement No. 40, *Deposits and Investment Risk Disclosures – an amendment to GASB Statement No. 3*, requires disclosures related to deposit risks, such as custodial credit risk, and investment risks, such as credit risk (including custodial credit risk and concentrations of credit risks) and interest rate risk. The college accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the fair value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students, gift pledges and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts.

Inventories: Inventories for internal use are valued at cost. Inventories for resale are carried at the lower of cost or market on the first-in, first-out ("FIFO") basis.

Capital Assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The College follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions, renovations, and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The College capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

Deferred Revenues: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences: Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as a component of current and long-term liabilities in the statement of net assets and as a component of benefit expenses in the statement of revenues, expenses, and changes in net assets.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets: The College's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

The College policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources and then to unrestricted resources.

Income Taxes: The College is exempt from income taxes under the Internal Revenue Code.

Classification of Revenues: The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the College's principal ongoing operations. These revenues include (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students; (2) receipts for scholarships where the provider has identified the student recipients; (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the College; and (4) grants and contracts that are essentially the same as contracts for services that finance programs the College would not otherwise undertake.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Auxiliary Enterprises and Internal Service Activities: Auxiliary enterprise revenues primarily represent revenues generated by bookstore and vending services. Revenues of internal service and auxiliary enterprise activities and the related expenditures of college departments have been eliminated.

NOTE B -- CASH, DEPOSITS AND INVESTMENTS

Deposits

State Law requires that a bank or savings and loan association receiving State funds must secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that a government will not be able to recover deposits if the depository financial institution fails or will not be able to recover collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails.

The College's policy concerning custodial credit risk states that collateral must be established to cover deposits in excess of those protected by FDIC. At the time the College's accounts are established the financial institution must send notification to the Federal Reserve and the main branch of the financial institution of the securities pledged as collateral for the College's accounts. The College will receive a copy of these notifications, which will serve as written proof of collateralization of deposits.

The deposits for Northeastern Technical College at June 30, 2010 were \$1,703,020. Of these, \$250,000 was FDIC insured and \$1,453,020 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the College's name. The College did not recognize any losses due to default by counterparties to investment transactions and amounts recovered from prior period losses.

Restricted cash includes \$273,628 held for plant funds, \$261,418 held for Allied Health funds, and \$38,192 held for agency funds.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Northeastern Technical College does not maintain deposits that are denominated in a currency other than the United States dollar, therefore, the College is not exposed to this risk.

The following schedule reconciles cash and investments as reported on the Statement of Net Assets to footnote disclosure provided for deposits and investments.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE B -- CASH, DEPOSITS AND INVESTMENTS - Continued

Statement of Net Assets:

Cash and cash equivalents	\$ 917,464
Restricted cash and cash equivalents	<u>573,238</u>

Total Statement of Net Assets: \$ 1,490,702

Disclosure, Deposits and Investments Plus Reconciling Items:

Carrying value of deposits:

Other	\$ 1,489,902
Cash on Hand	<u>800</u>

Total Disclosure, Deposits and Investments
Plus Reconciling Items \$ 1,490,702

NOTE C -- ACCOUNTS RECEIVABLE

Accounts Receivable at June 30, 2010, including applicable allowances, were as follows:

Local appropriations	\$ 10,654
State appropriations	19,386
Student accounts	1,153,534
Federal grants and contracts	205,570
State grants and contracts	<u>123,884</u>
Gross Receivables	1,513,028
Less: Allowance for uncollectibles	<u>0</u>
Receivables, net	<u>\$ 1,513,028</u>

The College uses the direct write-off method of accounting for receivables deemed uncollectible. Receivables known to be uncollectible are charged off as bad debts. Although this method is not in accordance with accounting principles generally accepted in the United States of America, historically its use has had no material effect on the financial statements since the amounts written off approximate the same charges against operations as would be produced if an allowance method based on actual experience were used. Total write-offs as of June 30, 2010 were \$9,996.

**NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE**

NOTE D -- CAPITAL ASSETS

	Beginning Balance <u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2010</u>
Capital assets not being depreciated				
Land and improvements	\$ 662,379			\$ 662,379
Construction in progress	<u>394,451</u>	<u>\$ 644,102</u>	<u>\$ (741,000)</u>	<u>297,553</u>
Total capital assets not being depreciated	1,056,830	644,102	(741,000)	959,932
Other capital assets				
Buildings and improvements	9,851,490	741,000		10,592,490
Machinery, equipment, and other	1,840,269	131,829		1,972,098
Vehicles	297,519			297,519
Depreciable Land improvements	<u>3,807,977</u>	<u> </u>	<u> </u>	<u>3,807,977</u>
Total other capital assets at historical cost	15,797,255	872,829	0	16,670,084
Less accumulated depreciation for				
Buildings and improvements	(4,172,403)	(291,516)		(4,463,919)
Machinery, equipment, and other	(1,752,885)	(158,587)		(1,911,472)
Vehicles	(279,803)	(6,716)		(286,519)
Depreciable land improvements	<u>(1,568,000)</u>	<u>(153,487)</u>	<u> </u>	<u>(1,721,487)</u>
Total accumulated depreciation	<u>(7,773,091)</u>	<u>(610,306)</u>	<u>0</u>	<u>(8,383,397)</u>
CAPITAL ASSETS, NET	<u>\$ 9,080,994</u>	<u>\$ 906,625</u>	<u>\$ (741,000)</u>	<u>\$ 9,246,619</u>

NOTE E -- PENSION PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to Financial Services, South Carolina Retirement Systems, PO Box 11960, Columbia, South Carolina 29211. Furthermore, the Retirement System and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE E -- PENSION PLANS - Continued

South Carolina Retirement System

The majority of employees of the College are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

From July 1, 1988 to June 30, 2005, employees participating in the SCRS were required to contribute 6.0 percent of all compensation. On July 1, 2005, the required employee contribution increased to 6.25 percent. On July 1, 2006, the required employee contribution increased to 6.50 percent. Effective July 1, 2008, the employer contribution rate became 12.74 percent which included a 3.5 percent surcharge to fund retiree health and dental insurance coverage. The College's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2010, 2009, and 2008, were \$379,148, \$367,959, and \$377,903, respectively, and equaled the required contributions of 9.06 percent (excluding the surcharge) for fiscal year 2008, 9.24 percent (excluding the surcharge) for fiscal year 2009, and 9.24 percent (excluding the surcharge) for fiscal year 2010. Also, the College paid employer group-life insurance contributions of \$6,287 in the current fiscal year at the rate of .15 percent of compensation.

Optional Retirement Program

The State Optional Retirement Program (State ORP) was first established as the Optional Retirement Program for Higher Education in 1987. In its current form, the State ORP is an alternative to the defined benefit SCRS plan offered to certain state, public school and higher education employees of the State. The State ORP, which is administered by the South Carolina Retirement Systems, is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by investment providers. The State assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers and are governed by the terms of the contracts issued by them.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.24 percent plus the retiree surcharge of 3.5 percent from the employer in fiscal year 2010.

Employees are eligible for group-life insurance benefits while participating in the State ORP. However, employees who participate in the State ORP are not eligible for postretirement group-life insurance benefits. For the fiscal year, total contribution requirements to the ORP were \$6,894 (excluding the surcharge) from the College as employer and \$10,569 from its employees as plan members. In addition, the College paid to the SCRS employer group-life insurance contributions of \$244 in the current fiscal year at the rate of .15 percent of compensation.

**NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE**

NOTE E -- PENSION PLANS - Continued

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the College have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit and are ineligible to receive group life insurance benefits or disability retirement benefits. Effective July 1, 2005, employees who choose to participate in the TERI Program will be required to make SCRS contributions. Due to the South Carolina Supreme Court decision in *Layman et al v. South Carolina Retirement System and the State of South Carolina*, employees who chose to participate in the TERI Program, prior to July 1, 2005 will not be required to make SCRS contributions.

SCRS employer contribution increased to .26% effective July 1, 2008.

NOTE F -- POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health, dental and life insurance benefits to certain active and retired State employees and their covered dependents. All permanent full-time and certain permanent part-time employees of the College are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements. Generally, those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the College for its active employees and to the State Budget and Control Board for all participating State retirees except portions funded through the pension surcharge and provided from other applicable fund sources of the College for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE F -- POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS - Continued

The College recorded benefit expenses for these insurance benefits for active employees in the amount of \$568,236 for the year ended June 30, 2010. As discussed in Note E, the College paid \$146,696 applicable to the 3.5 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to the College's retirees is not available. By State law, the College has no liability for retirement benefits. Accordingly, the cost of providing these benefits is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

NOTE G -- CONTINGENCIES, LITIGATION, AND PROJECT COMMITMENTS

The College participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

Unrestricted Net Assets

Included in the unrestricted net assets amount, at June 30, is a 60 day operating reserve of \$1,095,757.

NOTE H -- LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2010 was as follows:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>	<u>Long-Term Portion</u>
Note payable (Note I)	\$ 0	\$ 18,291	\$ 0	\$ 18,291	\$ 0	\$ 18,291
Accrued compensated absences	<u>402,316</u>	<u>0</u>	<u>(57,610)</u>	<u>344,706</u>	<u>53,848</u>	<u>290,858</u>
Total Long-Term Liabilities	<u>\$ 402,316</u>	<u>\$ 18,291</u>	<u>\$ (57,610)</u>	<u>\$ 362,997</u>	<u>\$ 53,848</u>	<u>\$ 309,149</u>

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE I -- NOTE PAYABLE

The College has a note payable from the State Energy Program Award for energy efficiency and renewable energy projects. The State Energy Program Award of \$73,250 is a combination of 75% grant and 25% no-interest loan. For the year ended June 30, 2010 total expenditures under the grant were \$73,164, 25% was appropriated as a note payable of \$18,291.

The scheduled maturities of the note payable are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2012	\$ 4,573
2013	4,573
2014	4,573
2015	<u>4,572</u>
TOTAL	<u>\$ 18,291</u>

NOTE J -- RELATED ORGANIZATIONS, RELATED PARTY TRANSACTIONS, AND TRANSACTIONS WITH DISCRETELY PRESENTED COMPONENT UNITS

The Northeastern Technical College Foundation ("Foundation") is a separately chartered legal entity whose activities are related to those of the College, in that, it exists primarily to provide financial assistance and other support to the College and its educational program. The Foundation is not considered to be a component unit of the College, and the financial statements of the Foundation have not been audited due to the immaterial amount of transactions.

Management reviewed its relationship with the Foundation under the existing guidance of GASB Statement No. 14, as amended by GASB 39. The College excluded this organization from the reporting entity because it is not financially accountable for it, and the Foundation's assets are not significant to the College's overall assets.

Following is a more detailed discussion of The Foundation and a summary of significant transactions (if any) between the Foundation and the College for the year ended June 30, 2010.

The Northeastern Technical College Foundation: The Foundation is a separately chartered corporation organized exclusively to receive and manage private funds for the exclusive benefit and support of Northeastern Technical College. The Foundation's activities are governed by its Board of Directors.

The College recorded non-governmental gift receipts of \$3,000 from the Foundation in non-operating revenues for the fiscal year ended June 30, 2010. These funds were used to support college programs such as scholarships. The Foundation reimbursed the College \$31,620 for purchases made by the College on behalf of the Foundation for the fiscal year ended June 30, 2010.

The Foundation's assets as of June 30, 2010 were \$512,322.

There are no receivables or payables between the College and Foundation as of June 30, 2010.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE K -- RISK MANAGEMENT

The College is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settlement claims have not exceeded this coverage in any of the past three years.

The State of South Carolina believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all the risk for the following claims of covered employees:

- Unemployment compensation benefits
- Worker's compensation benefits for job-related illnesses or injuries
- Health and dental insurance benefits
- Long-term disability and group-life insurance benefits

Employees elect health insurance coverage through either a health maintenance organization or through the State's self-insured plan.

The College and other entities pay premiums to the State's Insurance Reserve Fund (IRF), which issues policies, accumulates assets to cover the risk of loss, and pays claims incurred for covered losses relating to the following activities:

- Theft, damage to, or destruction of assets
- Real property, its contents, and other equipment
- Motor vehicles and watercraft
- Torts
- Natural disasters
- Medical malpractice claims against the Infirmary

The IRF is a self-insurer and purchases reinsurance to obtain certain services and to limit losses in certain areas. The IRF's rates are determined actuarially.

The College obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

NOTE L -- STATE APPROPRIATIONS

State funds for the South Carolina Technical College System are appropriated to the State Board for Technical and Comprehensive Education (the Board), and the Board allocates funds budgeted for the technical colleges in a uniform and equitable manner. Appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the Board receives authorization from the General Assembly to carry the funds over to the next year.

NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE

NOTE L -- STATE APPROPRIATIONS - Continued

The following is a detail schedule of the State appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2010:

NON-CAPITAL APPROPRIATIONS

Appropriations per State Board Allocation \$ 1,922,918

**TOTAL NON-CAPITAL APPROPRIATIONS AS
CURRENT YEAR REVENUE** \$ 1,922,918

CAPITAL APPROPRIATIONS

Appropriations per State Board Allocation \$ 0

NOTE M -- STATEMENT OF ACTIVITIES

	<u>2010</u>	<u>2009</u>	<u>Increase/ (Decrease)</u>
Charges for services	\$ 3,336,494	\$ 4,957,191	\$ (1,620,697)
Operating grants and contributions	5,012,640	1,326,570	3,686,070
Capital grants and contributions	42,212	61,233	(19,021)
Less: expenses	<u>(10,051,604)</u>	<u>(8,950,823)</u>	<u>(1,100,781)</u>
Net Program Revenue (Expense)	(1,660,258)	(2,605,829)	945,571
Transfers:			
State appropriations	<u>1,922,918</u>	<u>3,467,644</u>	<u>(1,544,726)</u>
Total Transfers	<u>1,922,918</u>	<u>3,467,644</u>	<u>(1,544,726)</u>
Change in net assets	262,660	861,815	(599,155)
Net assets – beginning	<u>10,846,018</u>	<u>9,984,203</u>	<u>861,815</u>
Net assets – ending	<u>\$ 11,108,678</u>	<u>\$ 10,846,018</u>	<u>\$ 262,660</u>

NOTE N -- OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2010 are summarized as follows:

	<u>Salaries</u>	<u>Benefits</u>	<u>Scholarships</u>	<u>Utilities</u>	<u>Supplies and Other Services</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 1,856,456	\$ 513,128			\$ 967,910		\$ 3,337,494
Academic Support	521,084	144,021			181,823		846,928
Student Services	831,851	232,015			543,188		1,607,054
Operation and Maintenance	280,090	116,862		\$ 281,218	461,579		1,139,749
Institutional Support	949,703	274,584			(55,422)		1,168,865
Scholarships			\$ 941,792				941,792
Auxiliary	42,327	12,622			434,084		489,033
Depreciation						\$ 520,689	520,689
Total Operating Expenses	<u>\$ 4,481,511</u>	<u>\$ 1,293,232</u>	<u>\$ 941,792</u>	<u>\$ 281,218</u>	<u>\$ 2,533,162</u>	<u>\$ 520,689</u>	<u>\$ 10,051,604</u>

**NOTES TO THE FINANCIAL STATEMENTS
NORTHEASTERN TECHNICAL COLLEGE**

NOTE O -- LEASES

The College rents certain office equipment. The fee is based on usage and the current year expenses for contingent rentals to external parties are \$40,282.

NOTE P -- AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS

The College incurred expenditures of \$553,739 during fiscal year 2010 under American Recovery and Reinvestment Act (ARRA) funding. These funds were awarded to the College via pass-through funding from the U.S. Department of Education (State Fiscal Stabilization Funds), U.S. Department of Labor (Quick Jobs Carolina, Power Up - Pee Dee), and the U.S. Department of Energy (State Energy Program).

ARRA – State Fiscal Stabilization Funds	\$ 362,633
ARRA – Quick Jobs Carolina	115,469
ARRA – State Energy Program	73,164
ARRA – Power Up – Pee Dee	<u>2,473</u>
TOTAL	<u>\$ 553,739</u>

NOTE Q -- SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 29, 2010, which represents the date the financial statements were available to be issued.

GOVERNMENTAL AUDITING REPORTS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
NORTHEASTERN TECHNICAL COLLEGE
For the Year Ended June 30, 2010

Federal Grantor / Pass-through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Education			
Direct Programs:			
Student Financial Aid Cluster:			
PELL	84.063		\$ 2,920,456
College Work Study	84.033		63,827
SEOG	84.007		47,988
Academic Competitiveness Grant	84.375		41,579
Total Student Financial Aid Cluster			<u>3,073,850</u>
Student Support Services Program	84.042A		287,707
Predominantly Black Institutions Program	84.382A		<u>369,153</u>
Subtotal U.S. Department of Education Direct Programs			<u>3,730,710</u>
Pass-Through the State Board for Technical and Comprehensive Education			
ARRA - State Fiscal Stabilization Funds	84.394	None	362,633
Pass-Through the State Department of Education			
Perkins	84.048	10VA404	<u>97,220</u>
Subtotal Department of Education Pass-Through Programs			<u>459,853</u>
Total U.S. Department of Education			<u>4,190,563</u>
U.S. Department of Health and Human Services			
Pass-Through Greenville Technical College			
TEACH-ECD	93.575	C50048H	<u>4,809</u>
Total U.S. Department of Health and Human Services			<u>4,809</u>
U.S. Department of Labor			
Pass-Through Florence-Darlington Technical College			
Power Up - Pee Dee	17.275	GJ200731060A45	2,473
Pass-Through State Board for Technical and Comprehensive Education			
ARRA - Quick Jobs Carolina	17.258	9ARRA002	57,603
ARRA - Quick Jobs Carolina	17.260	9ARRA002	<u>57,866</u>
Total U.S. Department of Labor			<u>117,942</u>
U.S. Department of Energy			
Pass-Through the State Department of Energy			
ARRA - State Energy Program	81.041	S09-0017	<u>73,164</u>
Total U.S. Department of Energy			<u>73,164</u>
TOTAL FEDERAL ASSISTANCE			<u><u>\$ 4,386,478</u></u>

NOTES TO THE SCHEDULE OF FEDERAL EXPENDITURES
NORTHEASTERN TECHNICAL COLLEGE
For the Year Ended June 30, 2010

NOTE A -- BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Northeastern Technical College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B -- ARRA STATE ENERGY PROGRAM

The grant issued 25 percent of the total award amount as a loan at zero percent interest which will be paid back from energy savings recognized from the grant award. For the year ended June 30, 2010 total expenditures for the State Energy Program were \$73,164. In accordance with terms of the grant, \$18,291 was payable to the State Department of Energy at June 30, 2010.

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Malynda M. Grimsley, CPA
Christina R. Kelly, CPA



Jeff Nates, CPA, CISA
Stacy F. Smith, CPA
Christie B. Gilbert, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The President and Members of the Area Commission
Northeastern Technical College
Cheraw, South Carolina

We have audited the financial statements of the business-type activities of Northeastern Technical College (*"the College"*) as of and for the year ended June 30, 2010 which comprise the College's basic financial statements, and have issued our report thereon dated September 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The President and Members of the Area Commission
Northeastern Technical College
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

The Hobbs Group, P.A.

Columbia, South Carolina
September 29, 2010

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The President and Members of the Area Commission
Northeastern Technical College
Cheraw, South Carolina

Compliance

We have audited Northeastern Technical College's ("the College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2010. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item [2010-1]. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina
September 29, 2010

Th Hobbs Group, P.A.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
NORTHEASTERN TECHNICAL COLLEGE
Year Ended June 30, 2010

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Northeastern Technical College.
2. No control deficiency disclosed during the audit of the basic financial statements is reported in the "Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards".
3. No instances of noncompliance material to the financial statements of Northeastern Technical College, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs is reported on the "Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133."
5. The auditors' report on compliance for Northeastern Technical College expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 for Northeastern Technical College are reported on this Schedule.
7. The programs tested as major programs include:
 - Cluster of Student Financial Aid
 - ARRA - State Fiscal Stabilization Funds
 - ARRA - Quick Jobs Carolina
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Northeastern Technical College did qualify as a low risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -- Continued
NORTHEASTERN TECHNICAL COLLEGE
Year Ended June 30, 2010

FINDINGS -- FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT

DEPARTMENT OF EDUCATION

AARA- State Fiscal Stabilization Funds Program – CFDA 84.394

Finding No. 2010-1

Condition: Auditor found that 8 out of 12 required monthly reports did not include the Jobs created/retained by the College and that 3 out of 12 did not break out the Expenditures by major cost category accurately.

Criteria: Internal controls should be in place to provide reasonable assurance that the required monthly reports include all required information and are accurate.

Cause: Prior to the grant being monitored by the SC Technical College System, procedures were not in place to ensure that the required monthly reports were complete and accurate. Subsequent to this monitoring, the College implemented procedures to assure all reporting requirements were met.

Effect: Because of the failure to properly ensure that all the required monthly reports are complete and accurate, the grant reporting requirements were not met.

Recommendation: The College should implement policies and procedures to monitor compliance with all grant reporting requirements.

Response: The College does have a procedure regarding externally-funded projects; however, with Stabilization funds being a new program, there were a lot of uncertainties regarding the required reporting elements. Guidance from the system office was vague in the beginning and as clarifications were being obtained, the reporting requirements became clearer. The Director of Fiscal Affairs and the Senior Accountant participated in a webinar session in February 2010 which indicated the jobs created/retained formula and that the calculation method had changed. Upon clarification from an internal audit in February 2010, NETC began reporting the jobs created/retained requirement.

Although the expenditures were not reported accurately by cost category in the beginning, after the internal audit in February 2010, these categories were corrected. One of the assurances required by the system office is: This institution will cooperate with SBTCE Office of Internal Audit to ensure compliance with rules and regulations regarding these funds. NETC has worked with the SBTCE Office of Internal Audit and will continue to closely monitor and accurately report all grant reporting requirements.

SCHEDULE OF PRIOR AUDIT FINDINGS
NORTHEASTERN TECHNICAL COLLEGE
June 30, 2010

<u>Program</u>	<u>Findings</u>
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There were no prior audit findings.